THE SOUTHLAND CORPORATION

1976 ANNUAL REPORT

OUR FIRST TWO BILLION DOLLAR YEAR

THE SOUTHLAND CORPORATION

The Southland Corporation, one of the nation's largest retailing companies, consists of the Stores Group, Dairies Group, and Special Operations.

The **Stores Group** is the country's largest operator and franchisor of convenience stores, with 5,953 **7-ELEVEN** stores, 3,658 company operated and 2,295 franchised, in 39 states, the District of Columbia, and Canada, and four Super Siete stores in Mexico. An additional 387 **7-ELEVEN** stores operate under eight area licenses in the United States and one license in Japan. Other operations include 120 Gristede's and Charles & Co. food stores and sandwich shops, three regional Distribution Centers, and a 69% ownership in Southland-McColl (U.K.) Limited, with 365 confectionery, tobacco, and news (CTN) stores in England and Scotland.

The **Dairies Group** is a major processor of dairy products, which are distributed under 12 well-known regional brand names in 30 states and the District of Columbia.

Special Operations include the Chemical Division, three Food Processing Centers, Hudgins Truck Leasing, and Reddy Ice.

CONTENTS

MANAGEMENT REPORT

FINANCIAL REPORT

1927 1977

OH THANK HEAVEN FOR FIFTY WONDERFUL YEARS

Five decades ago, Southland made its modest entrance into the business community. Now, as we prepare to celebrate the Company's 50th birthday on 7-11-77, we pause to reflect upon that unpretentious beginning, the energies and talents of the "Southland family," and the unique economic system under which our business and many others have flourished.

In maturing from a small ice company to a $2 billion enterprise, Southland has survived the impact of wars, kept pace with a multitude of technological advances, responded to unprecedented fluctuations in the economy, and adjusted to dramatic changes in the nation's life style. The fact that the Company has continued to grow and prosper must be attributed in large measure to the tremendous opportunities afforded by this country's enormously successful private enterprise system.

As the nation enters its third century, we look back with gratitude to the inspiration and genius of those who created, and have since maintained, a governmental structure which guarantees personal and economic freedom. Free enterprise is the only system ever conceived which promises "freedom of choice" and assures individuals the opportunity to compete, thereby encouraging innovation and change, without which no business entity could have thrived during the last fifty years. That environment inspired Southland's founders to establish a business which continues to grow through innovation, hard work, dedication, and the foresight to respond to ever-changing consumer patterns and social styles. They proved, as many others have and will, that the system works.

The capacity of business to create jobs, generate profits, and expand the economy is essential to the survival of free enterprise. The capacity of business to pay wages and taxes is essential to the survival of the government. The capacity of business to provide a fair return to investors in the form of dividends and interest is essential to its own survival.

Southland, we believe, stands today as one of America's finest examples of free enterprise. Founded in 1927 on a commitment to serve the public, the Company was, then as now, dedicated to the philosophy that . . .

- *The most important asset of the Company is its people, wherever they live and work.*
- *The well-being and security of its employees are dependent upon the soundness of the Company.*
- *The employees have a joint responsibility to the shareholders of the Company, to the public we serve, and to the nation as a whole.*

During the next fifty years, we will continue to adhere to this philosophy as we strive to provide customers "what they want, when they want it, where they want it." Our tomorrow and theirs depend upon preservation of their "freedom of choice."

JERE W. THOMPSON
President

H. E. HARTFELDER
Vice Chairman

JOHN P. THOMPSON
Chairman

COMPARATIVE HIGHLIGHTS

		YEAR ENDED DECEMBER 31	
FOR THE YEAR	**1976**	1975	% Change
Total Revenues	**$2,121,145,703**	$1,789,753,641	18.5
Net Earnings	**40,277,262**	34,318,668	17.4
Primary Earnings Per Share*	**2.16**	1.85	16.8
Diluted Earnings Per Share	**2.09**	1.79	16.8
Cash Dividends	**8,659,763**	7,033,407	23.1
Return on Beginning Shareholders' Equity	**14.8%**	14.1%	
AT YEAR-END			
Working Capital	**114,864,769**	94,734,722	21.2
Current Ratio	**1.81:1**	1.78:1	
Long-Term Debt	**153,092,602**	119,910,933	27.7
Shareholders' Equity	**304,451,410**	271,821,110	12.0
Book Value Per Share*	**16.34**	14.68	11.3
Annual Dividend Rate Per Share	**.50**	.40	25.0
Average Shares Outstanding	**18,627,380**	18,515,363	0.6
Number of Shareholders	**8,881**	9,093	(2.3)
Number of Employees	**31,000**	28,600	8.4

*Based on average number of shares outstanding during the period after adjusting for all stock dividends.

TO OUR SHAREHOLDERS:

OUR FIRST TWO BILLION DOLLAR YEAR established 1976 as another benchmark in Southland's history of steady growth. Revenues of $2.12 billion exceeded a coveted goal formulated only five years ago when we recorded our first $1 billion year. Earnings since 1971 have more than doubled, and 7-Eleven has maintained its leadership in the convenience store field with the net addition of 1,839 stores during the five year period.

Revenues increased 18.5% over 1975 and exceeded the Company's five year compound growth rate of 14.4%. Earnings for 1976 were up 17.4% to a record $40.3 million, compared with $17.3 million just five years ago. Primary earnings per share for the year were $2.16, up from $1.13 in 1971. Diluted earnings per share more than doubled during the five year period, increasing from $1.02 to $2.09.

The increasing popularity of convenience store shopping, a concept which Southland originated almost fifty years ago, has made possible the tremendous growth of the Company. Since 1971, sales of the convenience store segment of the retail food industry have grown at an average annual compound rate of 20.6%, more than twice the 10.1% compound growth rate of the industry as a whole. Convenience stores now account for almost 5¢ of each food dollar spent in the United States, an increase from slightly more than 3¢ five years ago.

Sales growth in existing 7-Eleven stores, general improvement in the economy, expansion of self-serve gasoline, and the net addition of 374 stores were major factors contributing to the sales gains. Also, aggressive new merchandising programs and promotions of selected items at competitive prices advertised through the highly successful 1976 theme, "It's A Pretty Good Deal," attracted shoppers and boosted sales of the 5,953 7-Eleven stores. The Dairies Group achieved excellent sales gains through the addition of new customers, expansion of product lines, and higher intracompany sales. Special Operations, which include ice and specialty chemical manufacturing, truck leasing, and food processing centers, also had an excellent year with sales and profits increasing substantially.

Margins declined slightly as a result of more competitive pricing of selected items in convenience stores, higher farm milk costs without corresponding market price increases, and a changing product mix, including a substantial increase in sales of self-serve gasoline, a high-volume low-gross profit item. Although costs of doing business continued to rise, the performance of 7-Eleven franchise owners and Southland's employees was outstanding in implementing programs started late in 1974 to further control expenses and conserve energy.

". . . As we formulate our plans for reaching two billion dollars a year, we believe that Southland's business philosophy and tradition of leadership will enable it to maintain its position in the fast-growing convenience store field."
—1971 ANNUAL REPORT

Gasoline facilities were installed at 514 7-Eleven stores, bringing the total number at year-end to 1,235. With the growing popularity of self-serve gasoline retailing and the large number of conveniently located 7-Eleven stores, we have a tremendous opportunity to serve a substantial part of this expanding market. The Company's response to consumer demand for this service reflects our ability to rapidly and continually adjust the 7-Eleven product mix to keep pace with ever-changing customer preferences and social patterns.

To satisfy the increasing demand for Southland's products and services, capital expenditures for the year were a record $98.6 million, the highest in the Company's history. Our confidence in the future of the convenience store business is reflected in the investment of $80.8 million, or 82% of total expenditures, in those operations which represent 87% of corporate revenues. Outlays of $6 million, or 6%, were for improvement and expansion of the Dairies Group, which represent 11% of revenues. An additional $11.8 million, or 12%, was invested in Special Operations and corporate facilities.

To provide additional funds for growth, the Company sold in March, 1977, $50 million of 8⅜% Sinking Fund Debentures due February 15, 2002. The debentures were the Company's first unsecured public debt issue and are rated "A" by both Moody's and Standard & Poor's.

The annual cash dividend rate was increased to 50¢, up 25% from the prior 40¢, and a 3% stock dividend was distributed in November. The automatic stock purchase plan established early in 1976 has been highly successful with more than 12% of our shareholders now enrolled.

7-Eleven received nationwide recognition as "the neighborhood store" from its participation in the Jerry Lewis Labor Day Telethon on behalf of the Muscular Dystrophy Association. As a result of successful campaigns conducted by people in all areas of the Company, $3.1 million was collected, making Southland the largest fund-raiser of any corporate sponsor.

Webster Atwell and W. W. Overton, Jr., retired from the Board of Directors after forty-two years of valuable service. Their numerous contributions to Southland's growth and success are deeply appreciated. William W. Atwell and Mark L. Lemmon, M.D., were elected to fill the two vacancies.

As we celebrate the Company's Golden Anniversary in 1977 and reflect proudly on Southland's fifty years of growth under a variety of economic conditions and social changes, we look forward to the achievement of a new goal — three billion dollars in annual revenues.

JOHN P. THOMPSON
Chairman

H. E. HARTFELDER
Vice Chairman

JERE W. THOMPSON
President

March 17, 1977

STORES GROUP

7-ELEVEN—THE PEOPLE'S CHOICE

To increasing numbers of the American public, **7-ELEVEN** is "the people's choice." Almost one and a half billion times a year customers choose their favorite neighborhood store for its convenience and accessibility. They choose **7-ELEVEN** because it is the most certain to have the right product — in the right place — at the right time. Continuing analysis of the diverse purchases at almost 6,000 locations enables Southland to anticipate accurately and consistently the wide variety of products and services customers expect.

What They Choose

Customer choices are frequently highlighted by prominent store-front banners — reminders that **7-ELEVEN** is "The Candy Store," "The Dairy Store," "The Hot to Go Store," or "Your Neighborhood Store." Our product movement analyses, by principal product category, show that 66.4% of customer choices are dairy products, soft drinks, tobacco and cigarettes, beer, wine, and such non-foods as gasoline, magazines, newspapers, and ice. The popular "Hot to Go" lines of fast, ready-to-heat or ready-to-eat foods included in other food items now represent 4.7% of sales, compared to 2.1% in 1971. Only 14.6% of total sales were groceries, which comprise more than two-thirds of supermarket sales, an indication of the vast difference between convenience store and supermarket shopping.

The increasing significance of "food away from home" is underscored by the fact that the majority of our fast food customers choose additional items while in the store. Purchases of dairy products, bakery and deli foods, soft drinks, and newspapers also generate related sales. Popular choices are often from a number of **7-ELEVEN** private label products, including health and beauty aids, canned goods, soft drinks, first aid items, hosiery, paper products, and charcoal — all competitively priced.

Where They Choose

More than one million people a day now walk or bicycle to their nearby **7-ELEVEN**, and almost 60% of our customers choose one within a mile of their homes. With the increasing emphasis on gasoline conservation, the convenient neighborhood locations of **7-ELEVEN** stores will become even more important.

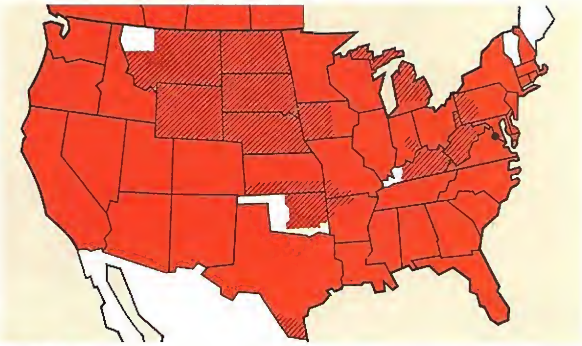
By 1990, the U.S. Department of Commerce projects the 25-49 age group, who now represent 47% of our customers, will reach 91.5 million, a gain of 25.6 million potential convenience store shoppers. Also, more than 1.2 million single persons under 25 now live alone, a substantial increase in only five years. New households are being established at twice the rate of population growth, further augmenting the demand for neighborhood convenience store shopping. As

PERCENT CONVENIENCE STORE SALES (BY PRINCIPAL PRODUCT CATEGORY)

	1976	1975	1974	1973	1972
Tobacco Products	**14.7%**	15.6%	15.7%	15.8%	15.6%
Groceries	**14.6**	15.3	17.1	18.2	18.2
Beer/Wine	**14.4**	14.8	14.1	13.6	13.5
Soft Drinks	**10.7**	11.5	11.5	10.8	11.2
Non-Foods	**10.2**	9.5	9.3	9.1	9.1
Dairy Products	**9.6**	9.9	10.5	11.3	11.8
Gasoline	**6.8**	3.9	2.7	2.3	1.6
Candy	**5.4**	5.7	5.3	4.8	4.9
Baked Goods	**5.3**	5.7	5.9	5.9	6.0
Other Food Items	**4.7**	4.2	3.9	3.3	2.5
Health/Beauty Aids	**3.6**	3.9	4.0	4.9	5.6
Total	**100.0**	100.0	100.0	100.0	100.0

The Company does not record sales by product lines but estimates the percentage of convenience store sales by principal product category based upon total store purchases.

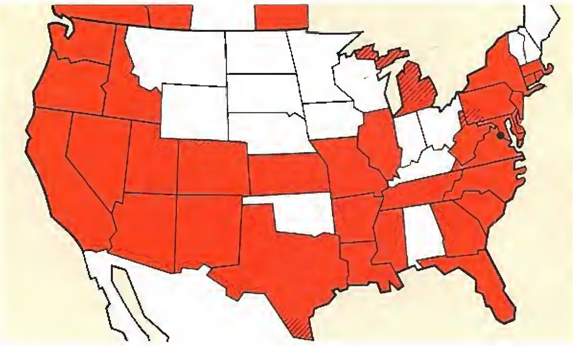
1976



Stores operated or franchised by area licensees.

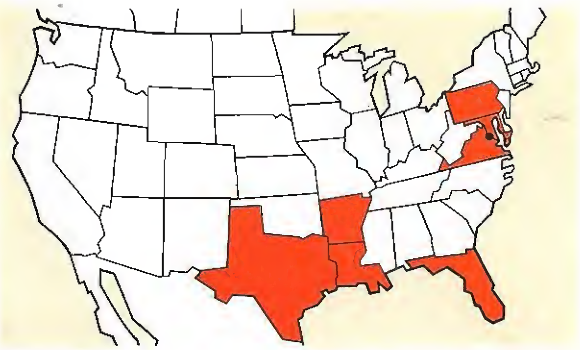
7-ELEVEN OPERATIONS......................

1970

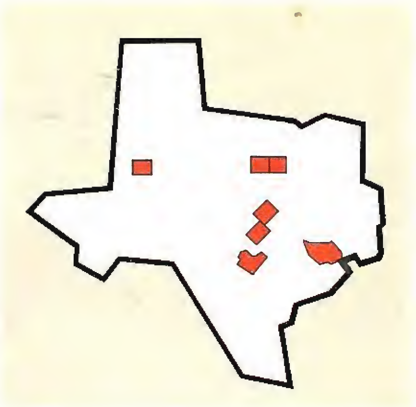


. . . **7-ELEVEN** had expanded into 32 states, the District of Columbia, and three provinces of Canada with 3,734 stores in operation.

1960

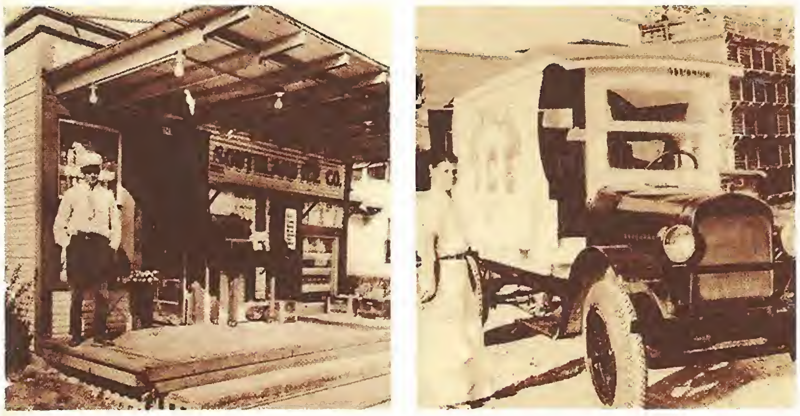


. . . expanding from the original stores in Texas, **7-ELEVEN** had moved into 7 states and the District of Columbia, with a total of 591 stores.

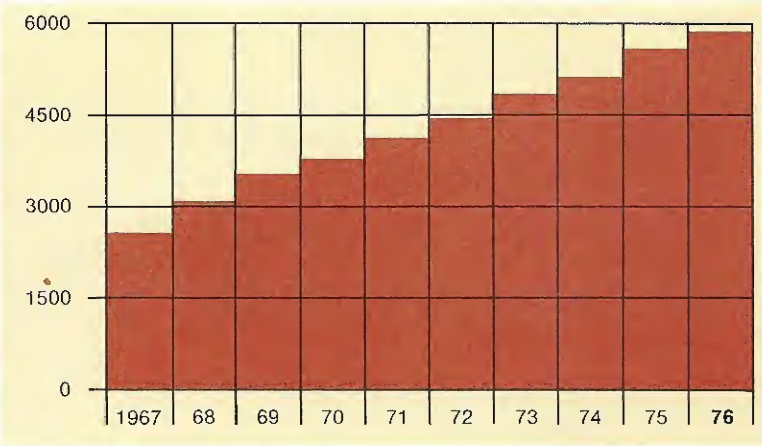


1927-1952

OUR FIRST 25 YEARS



The original Southland Ice Company pioneered the convenience store concept in the late 1920's and, in 1929, adopted the name Tote'M which, in 1946, was changed to **7-ELEVEn**.



7-ELEVEn STORE GROWTH

this trend continues, new opportunities will be created to serve new customers in new neighborhoods at the store "just around the corner."

Children are always welcomed at "their" store, close to home or school, where they choose school supplies, Slurpee, comic books, toys, candy, cold drinks, popcorn, ice cream, snacks, and novelties.

When They Choose

Day or night, weekdays or weekends, **7-ELEVEN** is the "available" store which customers know they can depend upon. Conventional hours are 7 a.m. to 11 p.m., but 4,977 stores remain open longer, including 4,265 which are open 24 hours a day. From early morning to late at night, customer favorites at **7-ELEVEN** are "Hot to Go" and snack foods, coffee, cigarettes, beer, soft drinks, gasoline, newspapers, and grocery items.

Self-Serve Gasoline

Gasoline facilities were installed at 514 **7-ELEVEN** stores during 1976, bringing the total number of stores offering this service to 1,235 at year-end. Industry sources project that more than half of all gasoline sales in the nation within the next few years will be through self-serve facilities. Gasoline now represents 6.8% of convenience store sales compared with 1.6% in 1972.

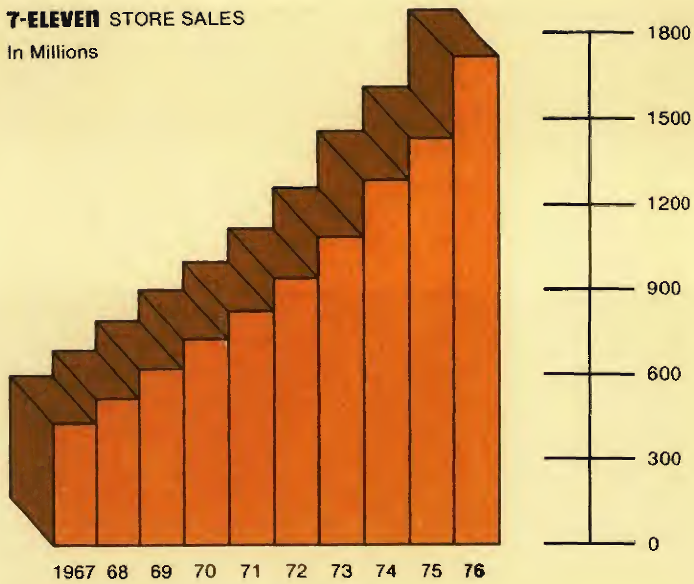
	PERCENT OF CUSTOMERS
MALE	70.2
FEMALE	29.8
	100.0

TIME OF DAY	
3 am- 7 am	7.8
7 am-11 am	18.4
11 am- 3 pm	20.0
3 pm- 7 pm	22.2
7 pm-11 pm	20.4
11 pm- 3 am	11.2
	100.0

Customer estimates are based upon a study conducted in 1976, by Southland's Market Research Department, of a geographically dispersed random sampling of **7-ELEVEN** stores.

STORES GROUP SALES

Southland's retail store sales climbed to a record $1.849 billion compared with $1.553 billion in 1975, up 19.1%. Stores Group sales have increased at an average annual compound rate of 14.7% since 1971 and in 1976 accounted for 87% of corporate revenues.



Sales of **7-ELEVEN** stores alone reached $1.715 billion, a 19.6% increase over $1.434 billion in 1975. In addition to the gains attributed to new store openings, strong sales growth was achieved in established stores through creative new advertising and merchandising programs, competitive pricing of selected products, more efficient use of selling space, increased emphasis on self-serve gasoline, sustained training of store personnel, and growing customer demand for "Hot to Go" fast foods.

The Gristede's and Charles & Co. stores serving the greater New York area also recorded sales gains for the year. Gristede's specializes in providing quality food products, unusual items, and convenience to the customer. Many of the stores operate delicatessen departments offering made-to-order sandwiches, prepared foods, and beverages. The gourmet stores also feature special gift assortments of fine foods which are available throughout the year.

Store Growth

In the five decades since Southland originated the concept, convenience stores have become the fastest growing segment of the retail food industry, now accounting for a 4.8% share of total U.S. food dollars. Between 1971

and 1976, convenience stores' share increased from \$2.91 to \$7.42 billion, with 27,400 units now in operation compared with 15,075 five years ago.

Maintaining its leadership in the convenience store field, **7-ELEVEN** had a net gain of 374 stores for the year, with 528 new stores opened and 154 closed because of expiration of leases or changing neighborhoods and traffic patterns. With 5,953 convenience stores in 39 states, the District of Columbia, and Canada, **7-ELEVEN** is among the ten largest food retailers in the United States. In 1976, Americans spent in excess of \$150 billion for food, and every time one of those dollars was spent, **7-ELEVEN** received a little over one cent.

At year-end, 199 **7-ELEVEN** stores operated under eight area licenses in portions of Arkansas, Indiana, Iowa, Kansas, Kentucky, Michigan, Missouri, Montana, Nebraska, North and South Dakota, Ohio, Oklahoma, Pennsylvania, Texas, West Virginia, and Wyoming. Ito-Yokado Co., Ltd., the area licensee in Japan, opened its 100th **7-ELEVEN** in June and, at year-end 188 were in operation. In late fall, a license agreement was completed for Australia where the first stores are planned for opening during 1977. Sales of stores operating under area licenses are not included in Southland's revenues, but royalties based on sales of these operations are reflected in other income.

STORE SUMMARY

	Opened	Closed	End of Year
7-ELEVEN			
United States	512	152	5,833
Canada	16	2	120
Mexico	—	—	4
Total	528	154	5,957
Gristede's and Charles & Co.	1	5	120
Barricini	—	20	—
Total	529	179	6,077
7-ELEVEN—Area Licenses			
United States			199
Japan			188
Total			387
United Kingdom (CTN)			365

DISTRIBUTION CENTERS

In 1976, Southland Distribution Center trucks made approximately 153,000 **7-ELEVEN** store deliveries, almost 600 every working day. The three Centers made a significant contribution to profits with combined intracompany sales exceeding \$264 million, up 15.7% over 1975.

Located in Florida, Texas, and Virginia, the Centers provide 3,391 stores in 17 states with approximately one-half of their merchandise requirements, exclusive of gasoline, from a selection of almost 2,400 items. Service was extended during the year to an additional 207 stores, or 57% of all stores.

The Centers employ the most advanced computer technology and merchandise handling methods. Stock lists, individually tailored to the particular needs of each store, are compiled and updated monthly by computer to simplify the ordering process. The completed merchandise orders are delivered to district offices for immediate transmission via terminals to Southland's Computer Center in Dallas. The information is then assimilated, and each store order is transmitted to data processing equipment at the appropriate Distribution Center. The merchandise is then "picked," assembled on carts and dollies, and consolidated for loading on custom-built trailers with separate compartments for dry, chilled, and frozen merchandise. During a typical "picking day," one store order is assembled every two minutes. The entire cycle is scheduled by computer, including merchandise movement, replenishing of the Centers' inventories, truck loading sequence, and the most energy-efficient routing of vehicles.

The concept of delivering pre-priced merchandise in less than case quantities eliminates overstocking and assures fresh merchandise on the shelves at all times. This system, specifically designed to meet the unique requirements of convenience stores, has made available more shelf space, thus enabling **7-ELEVEN** to offer additional products and services such as the popular "Hot to Go" fast foods program. The Centers attained an exceptionally high fill rate of 99% in 1976, providing the stores a fast, reliable, and highly efficient source of supply.

During 1976, the computerized inventory control system enabled the Centers to achieve an average turnover rate of 25 times, again contributing significantly to cash flow. In addition, the completely integrated system provides both field and corporate personnel with accurate and timely financial and management reports.

DAIRIES GROUP

Total sales of the Dairies Group increased 14% to $339.3 million for the year, including intracompany sales of $103.6 million which were up 15.7%. Sales to outside customers were $235.7 million, a gain of 13.2%, and accounted for 11% of corporate revenues. Total milk gallonage in 1976 increased 14% over the previous year. The excellent sales gain resulted from more aggressive marketing of dairy products in **7-ELEVEN** stores, introduction of popular new products, and the addition of new customers. Southland Dairies served 4,762 of the convenience stores with milk, ice cream, or related products and supplied approximately 68% of dairy products sold in all **7-ELEVEN** stores.

Although operating profits were the second highest for any year in the Company's history, they were down slightly from the previous year due to a reduction in gross margin caused by a general increase in the costs of doing business and higher farm milk costs without corresponding market price increases.

Early in 1977, the Company obtained a license to manufacture and distribute the popular new line of Meri-Yo yogurts. These low-calorie products, which are made with natural flavorings, are soft or hard-frozen and marketed from ice cream cabinets or dispensed as soft-serve desserts, light meals, or snacks. Adohr Farms, Bancroft, and the Specialty Foods Division will process the yogurts for distribution to **7-ELEVEN** stores and other customers.

The "Big Wheel," an ice cream confection introduced in 1976, immediately received wide customer acceptance, and marketing has now been extended to **7-ELEVEN** stores nationwide. The sandwich-like novelty is made with vanilla ice cream between large oatmeal cookies and coated with creamy chocolate. During 1977, manufacturing equipment will be installed at the Oak Farms processing facility in Dallas for production of a number of additional frozen confections which will be distributed throughout the Southwest and Southeast.

Substantial sales gains by the three Southland Food Centers during the year resulted in increased demand for ingredients processed by the Specialty Foods Division for the popular "Hot to Go" sandwich line. The division also produces fruit juices and drinks, salads, dips, yogurt, eggnog, and ultra-pasteurized creams.

The ultra-modern Embassy milk plant in Maryland, which opened in August, 1975, has met our expectations for maximum processing efficiency, highest product quality, and minimum production costs. Several of the unique dairy systems developed for that facility have been installed at Velda Farms in Miami as part of a major modernization program. Another capital investment by the Dairies Group was the construction of a warehouse and installation of new equipment to increase production capacity at Bancroft in Wisconsin. In addition to processing milk, the plant is a major supplier of cottage cheese, dips, yogurts, and ultra-pasteurized creams. This line of cultured products is distributed to other Southland Dairies as well as to a large number of outside customers.

DISTRIBUTION OF DAIRY SALES

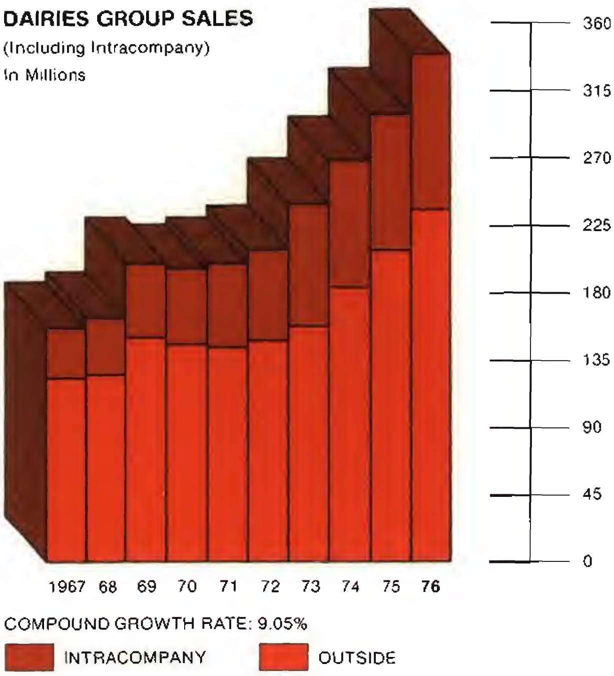
CUSTOMERS

	1976	1975	1974	1973	1972
Wholesale	**54%**	57%	54%	49%	48%
Intracompany	**31**	30	32	34	33
Distributors and Others	**14**	12	12	14	16
Home Deliveries	**1**	1	2	3	3
Total	**100%**	100%	100%	100%	100%

PRODUCTS

	1976	1975	1974	1973	1972
Milk, cottage cheese, and other food items	**87%**	86%	86%	86%	84%
Ice cream and related products	**13**	14	14	14	16
Total	**100%**	100%	100%	100%	100%

Southland Dairies market a wide variety of milk, ice cream, and related dairy products under 12 well-known regional brand names.



Harbisons Dairies
Kensington & Hunting Park, Philadelphia, PA 19124

Horten's Dairy
4918 Denison Ave., Cleveland, OH 44102

Midwest Farms
1681 Union Ave., Memphis, TN 38104

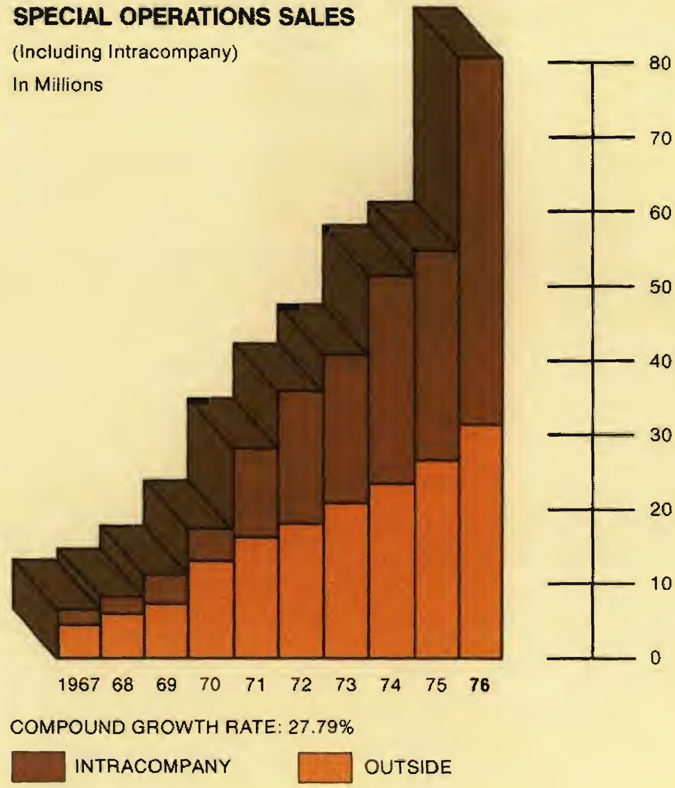
Oak Farms
1114 N. Lancaster, Dallas, TX 75203

Velda Farms
501 N.E. 181st St., Miami, FL 33162

Wanzer's
130 W. Garfield Blvd., Chicago, IL 60609

SPECIAL OPERATIONS

The diversified businesses included in Special Operations distribute products and provide services to the Company as well as to outside customers. Combined sales in 1976 increased 46% to $80.1 million, $48.9 million of which were intracompany and not included in total revenues. Sales to outside customers were $31.2 million, a 16.2% increase over 1975, and represented 2% of corporate revenues.



CHEMICAL

Sales to outside customers increased to 59% of total Chemical Division sales, up 28.2% over 1975. This rapidly growing division, which produces an increasing variety of food ingredients, preservatives, and other specialty chemical products for distribution throughout the United States and internationally, also supplies Southland operations with certain sanitizing and cleaning agents as well as food flavorings and other ingredients used in dairy products and in some private label items.

The division recently acquired a patent for a multi-functional food additive which reduces bakery processing time and eliminates the necessity for certain additional ingredients required in the past.

Surfactants, which are used in synthetic detergents and soaps and have wide usage in the textile, agriculture, and oil field service industries, are recent additions to the specialty chemical line. A new market development program for these products was initiated during the year, and plans are being formulated to add plant capacity to process these chemicals.

Sales of can-sealants increased significantly during the year. The line includes solvent base, water base, die liner, and side-seam cement sealers used to form thin gasket seals for cans to assure leak-proof packages for beverages, foods, and other canned products. The division recently received a patent on its water based can sealant.

In addition, strong sales gains were realized from the industrial coating product line. Flexigraph ink is a recent addition to this line, which consists primarily of mirror backings, customized to meet high-volume requirements for various types of mirrors. Sales of baking enamels for kitchen appliances and lighting fixtures also increased significantly.

The expansion and diversity of the Chemical Division's product lines, increased capacity, and wider distribution provide new opportunities for continuing growth and profitability.

FOOD CENTERS

Almost 30 million sandwiches, more than a 50% increase over 1975 production, were prepared during the year at the three Southland Food Centers. Customer preferences are monitored daily to assure that the most popular items are always available. Among the favorites in a line of 20 to 25 sandwiches

produced for the **7-ELEVEN** "Hot to Go" fast foods program are Cheeseburger, Ham and Cheese, Egg Hamlette, and Submarine. Many of these high quality products are prepared for fast heating in microwave ovens conveniently located in the stores, offering customers a wide choice of "food away from home."

The Centers, located at the three regional Distribution Centers, expanded operations during the year, including extension of service from the Tyler, Texas facility to **7-ELEVEN** stores in the western region of the nation. The sandwiches are prepared, flash-frozen to assure locked-in freshness, and shipped to independent distributors on the west coast for delivery to those stores. In addition to food processing, the Centers produced almost one million gallons of Slurpee syrups from flavor concentrates manufactured by the Chemical Division. Both sales and earnings of the Food Centers showed exceptionally strong gains during 1976, and continued growth is anticipated. Almost 23% of sales were to outside customers.

HUDGINS

Hudgins Truck Rental operates from locations in Texas, Missouri, Virginia, and Florida. Full-maintenance service is provided to the three Distribution Centers, the Chemical Division, Reddy Ice, and to other customers who use either daily rental or long-term lease vehicles. The division achieved excellent sales and profit increases with rental and lease contracts to outside customers accounting for 70% of revenues.

REDDY ICE

Reddy Ice manufactures packaged and commercial ice for distribution through **7-ELEVEN** stores and to outside customers. In Houston, the most modern ice manufacturing plant in the world was completed in August. With a daily capacity of 160 tons, the Houston plant is fully automated and operates under concepts totally new in ice processing. Manufacturing facilities at Ft. Lauderdale, Dallas, and Las Vegas were modernized during the year. More than 67% of sales were to outside customers.

TEN YEARS OF GROWTH
THE SOUTHLAND CORPORATION AND SUBSIDIARIES

(Dollars in thousands except per share data)

	1967	1968	1969	1970
Operations				
Total revenues	$ 563,540	$ 665,764	$ 874,220	$ 986,580
Increase over prior year	17.26%	18.14%	31.31%	12.85%
Net earnings*	7,695	9,862	12,436	14,895
Increase over prior year	26.04%	28.16%	26.10%	19.77%
Per revenue dollar	1.37%	1.48%	1.42%	1.51%
Return on beginning shareholders' equity	22.68%	23.69%	15.32%	14.96%
Assets Employed				
Working capital	41,537	56,906	76,487	79,856
Property, plant, and equipment (net)	68,481	96,607	132,494	143,610
Depreciation provision	5,033	7,343	11,616	15,009
Total assets	156,100	208,393	279,986	299,681
Capitalization				
Long-term debt	63,512	63,887	97,913	97,299
Shareholders' equity	41,630	81,170	99,546	113,285
Total capitalization	105,142	145,057	197,459	210,584
Long-term debt to total capitalization	60.4%	44.0%	49.6%	46.2%
Per Share Data**				
Primary earnings	.64	.74	.84	.98
Earnings assuming full dilution	.59	.67	.75	.88
Cash dividends	.11	.12	.12	.12
Shareholders' equity	3.49	6.06	6.69	7.49
Other Data				
Cash dividends	1,342	1,557	1,796	1,888
Stock dividends	3%	3%	3%	3%
Stock splits		3-for-2		
Average primary shares outstanding	11,937,980	13,397,264	14,891,060	15,121,274
Average diluted shares	13,534,069	15,708,241	18,302,095	18,755,770
Market price range				
High	12⅞	23⅜	22⅝	19½
Low	6	11¾	16⅜	13⅝
Number of shareholders	2,816	7,457	8,079	8,249
Number of employees	13,900	16,900	19,500	18,900

*Before extraordinary income.

**Based on average shares outstanding adjusted for stock dividends and splits.

1971	1972	1973	1974	1975	**1976**	*10 Year Compound Growth*
$ 1,085,107	$ 1,228,350	$ 1,396,491	$ 1,613,125	$ 1,789,754	**$ 2,121,146**	16.01%
9.99%	13.20%	13.69%	15.51%	10.95%	**18.52%**	
17,300	20,366	23,328	29,736	34,319	**40,277**	20.76%
16.15%	17.72%	14.55%	27.47%	15.41%	**17.36%**	
1.59%	1.66%	1.67%	1.84%	1.92%	**1.90%**	
15.27%	14.85%	12.01%	13.93%	14.11%	**14.82%**	
83,689	107,912	95,973	87,151	94,735	**114,865**	
155,688	165,270	219,262	253,864	290,583	**339,447**	
16,247	17,862	21,543	25,250	30,214	**36,044**	
326,478	389,353	441,125	485,985	536,978	**626,460**	
95,192	82,043	107,496	105,609	119,911	**153,093**	
137,132	194,202	213,445	243,289	271,821	**304,451**	24.54%
232,324	276,245	320,941	348,898	391,732	**457,544**	
41.0%	29.7%	33.5%	30.3%	30.6%	**33.5%**	
1.13	1.17	1.30	1.65	1.85	**2.16**	15.53%
1.02	1.11	1.24	1.57	1.79	**2.09**	15.61%
.16	.20	.23	.32	.38	**.46**	
8.91	11.17	11.91	13.49	14.68	**16.34**	19.04%
2,423	3,491	4,096	5,834	7,033	**8,660**	
3%	3%	3%	3%	3%	**3%**	
3-for-2						
15,394,952	17,381,288	17,915,888	18,038,849	18,515,363	**18,627,380**	
18,740,572	19,158,618	19,662,140	19,657,591	19,684,909	**19,710,668**	
30	35⅞	28⅝	20⅛	27¾	**27⅝**	
18¾	22½	11⅞	12⅛	14¾	**20⅜**	
8,866	9,418	9,476	9,351	9,093	**8,881**	
21,500	24,100	26,800	28,200	28,600	**31,000**	

FINANCIAL REVIEW

REVENUES

Consolidated revenues exceeded two billion dollars in 1976, just five years after reaching the one billion dollar level. Revenues were $2.121 billion, up $331.4 million over the previous record of $1.790 billion for 1975. The 18.5% increase, the largest for any year since 1969, substantially exceeded the Company's five year compound growth rate of 14.4%.

REVENUES (Millions)

QUARTER	**1976**	1975	% Gain
First	**$ 465.5**	$ 393.5	18.3
Second	**538.9**	446.8	20.6
Third	**569.6**	478.6	19.0
Fourth	**547.1**	470.9	16.2
TOTAL	**$2,121.1**	$1,789.8	18.5

As new 7-Eleven stores come on stream to meet the expanding demand for convenience shopping, Southland looks forward to continuing growth with only moderate fluctuations under varying business conditions. More efficient use of selling space and increased volume in established stores, as well as the net addition of 374 new stores, resulted in 7-Eleven sales increasing 19.6% over 1975. Total Stores Group sales were up 19.1% while the Dairies Group rose 13.2%, and Special Operations showed gains of 16.2%.

The Stores Group represented 87% of total Company revenues with the Dairies Group accounting for 11% and 2% from Special Operations and other income.

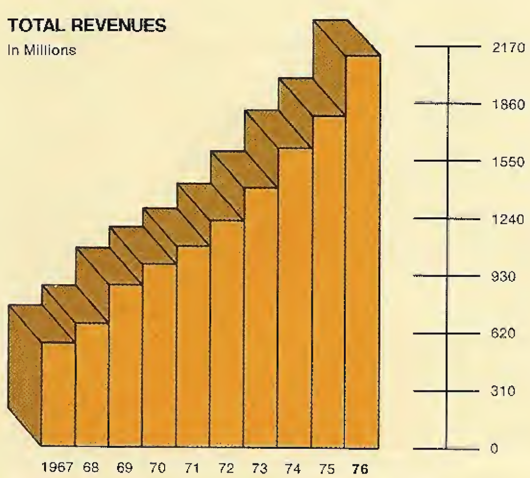
NET EARNINGS

Net earnings also reached a new high of $40.3 million as the Company established both sales and profit records for each quarter during the year. Earnings were more than double those of 1971 when Southland recorded its first billion dollar year in revenues. The 17.4% gain over 1975 earnings was the result of maintenance of overall profitability, increased volume through aggressive advertising and merchandising, improved product mix, and continued emphasis on programs to improve productivity and reduce operating costs.

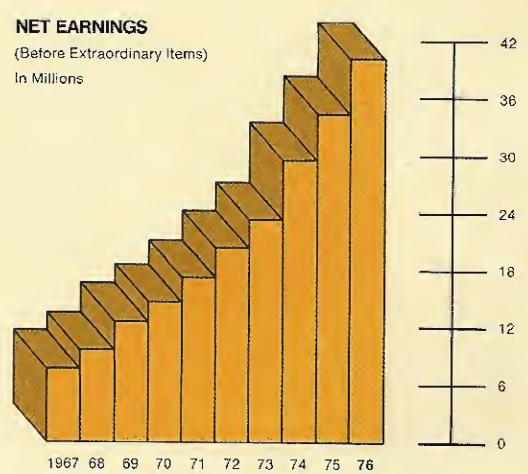
NET EARNINGS (Thousands)

QUARTER	**1976**	1975	% Gain
First	**$ 5,456**	$ 4,161	31.1
Second	**12,277**	10,809	13.6
Third	**13,197**	11,414	15.6
Fourth	**9,347**	7,935	17.8
TOTAL	**$40,277**	$34,319	17.4

Southland's net return on revenues for the year amounted to 1.90%, one of the highest after tax profit margins of any major food retailer. In 1976, 86% of the Company's total operating profits were from convenience stores, the fastest growing segment of the highly competitive food retailing industry. One of the Company's primary objectives is to improve its net return on each dollar of revenue while maximizing sales.



COMPOUND GROWTH RATE: 16.01%



COMPOUND GROWTH RATE: 20.76%

EARNINGS PER SHARE

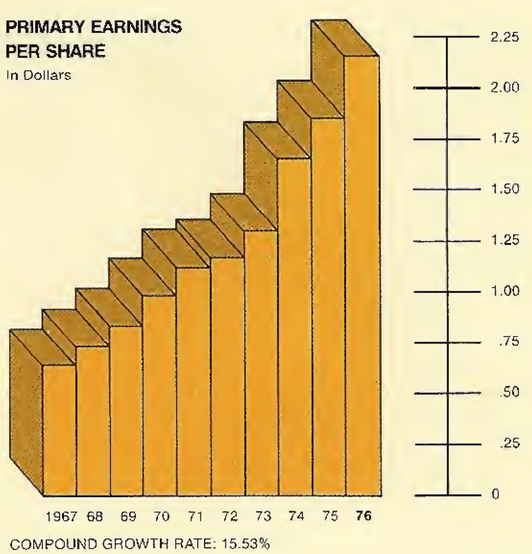
Primary earnings per share were $2.16, up 16.8% over 1975 earnings of $1.85. Average shares outstanding were 18,627,380, compared with the prior year's 18,515,363.

Assuming full dilution, earnings per share were $2.09 compared with 1975 earnings of $1.79, up 16.8%. Diluted earnings were computed on the basis of 19,710,668 average shares, compared with 19,684,909 a year earlier.

Comparative earnings per share by quarters, adjusted for 3% stock dividends in each year, were as follows:

	PRIMARY			DILUTED		
QUARTER	**1976**	1975	% Gain	**1976**	1975	% Gain
First	**$ .29**	$ .22	**31.8**	**$ .29**	$ .22	**31.8**
Second	**.66**	.58	**13.8**	**.63**	.56	**12.5**
Third	**.71**	.62	**14.5**	**.68**	.59	**15.3**
Fourth	**.50**	.43	**16.3**	**.49**	.42	**16.7**
TOTAL	**$2.16**	$1.85	**16.8**	**$2.09**	$1.79	**16.8**

During the past ten years, Southland's primary earnings per share have increased at an average annual compound rate of 15.5%. Diluted earnings per share during the same period have achieved a 15.6% compound annual growth rate and have more than doubled in the past five years.



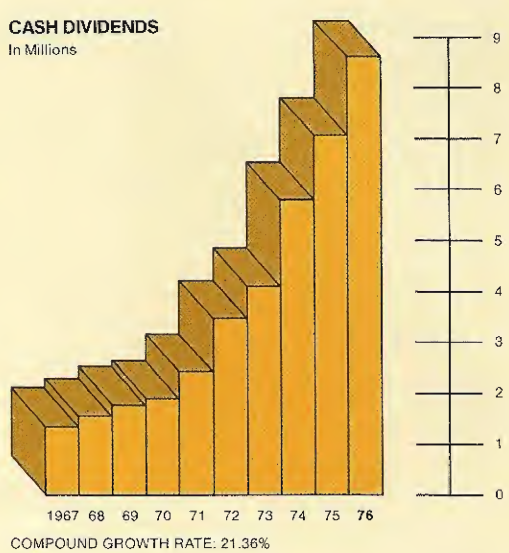
DIVIDENDS

The annual cash dividend rate was increased 25% during the year to 50¢ from 40¢ per share. Total cash dividends distributed were $8,659,763, or 21.5% of net earnings. Our conservative cash dividend policy reflects the Company's need for reinvestment of earnings to meet its ambitious growth objectives while, at the same time, recognizing the investment objective of our shareholders for dividend income.

DIVIDENDS PAID PER COMMON SHARE		
CASH:		
QUARTER	**1976**	1975
First	**$.10**	$.10
Second	**.12½**	.10
Third	**.12½**	.10
Fourth	**.12½**	.10
TOTAL	**$.47½**	$.40
STOCK:	**3%**	3%

The Company has declared cash dividends each year since 1957, and the annual rate has been raised ten times. Cash dividends paid in 1976 exceeded the Company's total earnings just ten years ago. For the eleventh consecutive year, a 3% stock dividend was declared, and in November, 1976, 539,033 shares were issued. The Company has declared stock dividends or stock splits each year, except 1964, since 1958.

In February, 1976, the Company announced to shareholders an Automatic Stock Purchase Plan offered by The Chase Manhattan Bank, N.A., New York, NY. The Plan enables shareholders to invest cash dividends, as well as voluntary cash contributions, quarterly in additional Southland shares. As of December 31, 1976, 1,083 or 12.2% of shareholders of record were participants in the Plan.



FINANCIAL POSITION

The Company's traditionally conservative financial policies and flexible capital structure — capable of providing the funds necessary to expand productive assets for systematic sales and earnings growth — enabled Southland to again finish the year in a strong financial position. Consistent with this objective the Company plans to continue utilizing the most advantageous combination of debt, equity, and lease financing. However, the method of financing convenience store expansion is influenced by the fact that approximately half of the new 7-Eleven locations each year are available only on a lease basis as the owners prefer to develop and lease the sites rather than offering them for sale to the Company. At year-end, approximately two-thirds of Southland's convenience store operations were conducted under "noncapitalized financing leases" — as defined by Financial Accounting Standards Board Statement No. 13.

During the year, long-term debt increased a net of $33.2 million to $153.1 million, compared with $119.9 million at the close of 1975, primarily reflecting mortgage financing of new 7-Eleven stores. Total capitalization (long-term debt plus shareholders' equity) at December 31, 1976, was $457.5 million, with long-term debt representing 33.5% of the total, compared with 30.6% a year earlier.

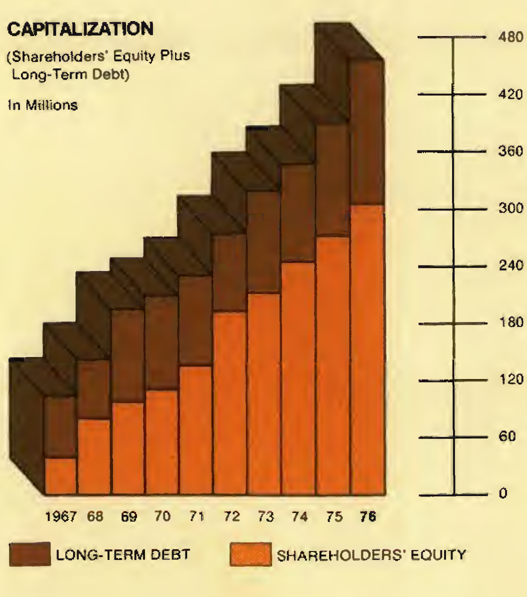
Working capital (current assets minus current liabilities) increased $20.2 million to $114.9 million at year-end, compared with $94.7 million the previous year. The ratio of current assets to current liabilities improved to 1.81:1, compared with 1.78:1 a year earlier. No short-term debt was outstanding at year-end.

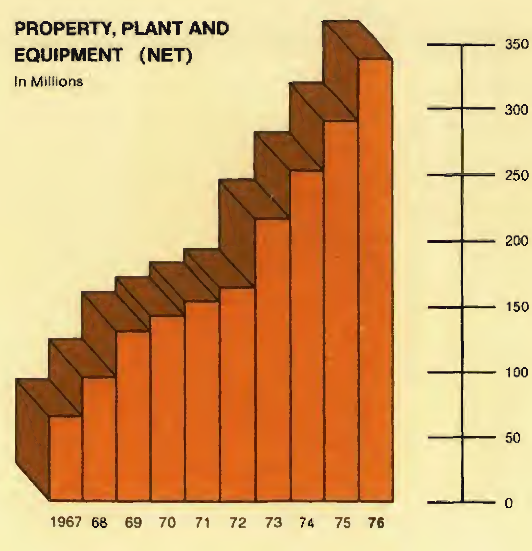
CAPITAL INVESTMENT

Investment in property, plant, and equipment in 1976 totaled $98.6 million, the largest amount for any one year in Southland's history. The Company financed $58.3 million of its capital investment from funds provided by operations and the remaining $40.3 million from external funds. Capital outlays for the Stores Group and the Distribution Centers were $80.8 million, or 82% of total additions to fixed assets. Expenditures for the Dairies Group were $6 million, or 6%, and $11.8 million, or 12%, were for Special Operations and other facilities.

Southland places strong emphasis on ownership of fixed assets and, during the last five years, has invested $345.6 million in expansion and modernization of its facilities. Reflecting the Company's confidence in the potential of its convenience store business, capital expenditures during the period 1972-1976 for store operations and distribution centers to serve 7-Eleven stores amounted to $266.1 million, or 77% of the total invested. Our current five year capital expenditure plan calls for continued major investment to expand operations, maintain modern and up-to-date facilities, increase productivity, and enlarge capacity in keeping with customer demand.

Depreciation and amortization expense for 1976 increased $5.8 million, up 19.3% to $36 million, compared with $30.2 million for 1975. At year-end, the Company's investment in property, plant, and equipment before depreciation was $500.2 million, compared with $427.7 million a year earlier, an increase of $72.5 million.





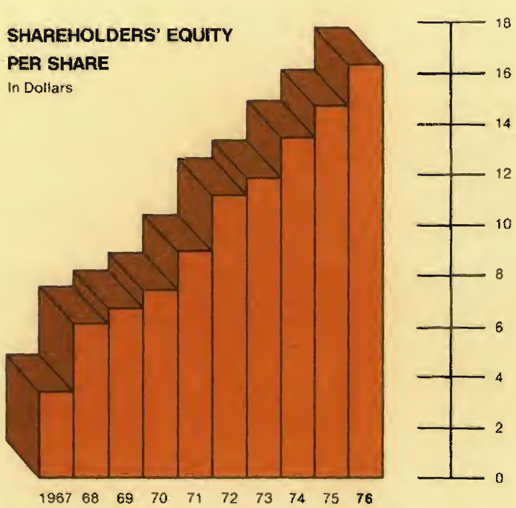
SHAREHOLDERS' EQUITY

Shareholders' equity rose to $304.5 million at year-end, compared with $271.8 million the prior year, reflecting a compound annual growth rate of 24.5% over the past ten years. Return on beginning shareholders' investment (net earnings divided by equity) increased to 14.8%, compared with 14.1% in fiscal 1975.

During the year, shareholders' equity was increased $32.6 million, principally through retained earnings after payment of cash dividends, and by the conversion of $823,000 of 5¾% Convertible Subordinated Notes Due 1987 into common stock.

At December 31, 1976, 18,650,776 shares of common stock were outstanding, compared with 18,036,037 shares a year earlier, an increase of 614,739 shares. The 3.4% increase is the result of issuing 539,033 shares in payment of a 3% stock dividend, 62,764 shares for conversion of the 5¾% Convertible Subordinated Notes, 12,924 shares under the key employees incentive plan, and 18 shares relating to a previous acquisition. At year-end, 1,038,534 shares were reserved for issuance upon conversion of outstanding notes and debentures and 174,724 shares for issuance under the employees' stock option plan and the key employees incentive plan.

Book value per share (shareholders' equity divided by average primary shares outstanding) at year-end 1976 was $16.34, compared with $14.68 at the close of 1975, an increase of $1.66.



COMPOUND GROWTH RATE: 19.04%

FOREIGN INVESTMENTS

In January, 1976, Southland and Cavenham Limited restructured their joint United Kingdom retail interests in order to consolidate operations and plan for the future growth of the respective companies. Southland purchased from Cavenham, for approximately $2.9 million, an additional 19% interest in Southland-Cavenham Limited, increasing its ownership to 69%. The Company also acquired an option, exercisable in 1978, to purchase Cavenham's remaining 31% interest for $3.1 million. At the same time, Southland sold its 50% interest in Cavenham-Southland Limited to Cavenham for $6.3 million. These transactions will not result in any gain or loss for financial reporting purposes or additional investment by Southland.

Sales of the 365 convenience type CTN stores, now operating principally under the name of R. S. McColl, Limited, for the twelve month period ended October 16, 1976, were $77.9 million, compared with $70.2 million for the previous year. Sales and profits showed satisfactory increases although inflation, economic uncertainties, and continuing government restrictions on profit margins continue to hold down earnings. Sales of these operations are not included in Southland's revenues.

For the fiscal year, Southland's equity in earnings of affiliates — stated net of interest on funds used to make the investments, amortization of the excess of investments over net assets acquired, and foreign and U.S. taxes — was $426,054 compared with $598,528 for 1975. Sales and earnings were translated to U.S. dollars at the average rates of exchange during the reported periods in accordance with the provisions of Financial Accounting Standards Board Statement No. 8.

PROFIT SHARING AND PENSION PLANS

The Company contributes to The Southland Corporation Employees' Savings and Profit Sharing Plan, established in 1949, and to various union pension plans. Eligible employees have the option of joining Southland's voluntary contributory plan. Company contributions to this fully funded, trustee-administered plan are based on pretax earnings. All required contributions to union pension plans have been made.

MARKET DATA

Southland's common stock is traded under the symbol **SLC** on the New York, Pacific, Boston, and Philadelphia Stock Exchanges. The following market price and earnings per share information has been adjusted for 3% stock dividends in each year. The price/earnings ratios are based upon primary earnings per share for the four preceding quarters.

QUARTER	PRICE RANGE		PRICE/EARNINGS RATIO	
1975	High	Low	High	Low
First	22⅝	14¾	13.7	9.0
Second	27¾	20⅞	16.5	12.4
Third	27½	21¾	16.0	12.6
Fourth	24	19⅜	13.3	10.8
1976				
First	**25⅜**	**20⅞**	**13.7**	**11.3**
Second	**23¾**	**20⅜**	**12.4**	**10.6**
Third	**25¾**	**22⅞**	**12.9**	**11.4**
Fourth	**27⅝**	**22¾**	**13.2**	**10.9**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF CONSOLIDATED EARNINGS

Southland's revenues have increased each year from $1.228 billion in 1972 to $2.121 billion in 1976, a compound growth rate of 14.6%, while net earnings have increased from $20.366 million to $40.277 million, a compound growth rate of 18.6%. This upward trend is a result of internal growth, expansion of the Company's major lines of business, continued consumer demand for convenience shopping, and the opening of new 7-Eleven stores.

Net earnings as a percent of revenues have improved during the last five years from 1.66% in 1972 to 1.90% in 1976.

FISCAL YEAR 1976 COMPARED WITH FISCAL YEAR 1975

In 1976, revenues increased $331.4 million to $2.121 billion, compared with $1.790 billion for 1975, up 18.5%. All operating groups of the Company contributed to the gain, reflecting general improvement in the economy, successful merchandising and advertising programs, gain in average sales volume per store, more aggressive pricing of selected products, an increase in sales of self-serve gasoline, and the opening of new 7-Eleven stores. The Company opened a net of 374 convenience stores in 1976, compared with 408 the previous year.

Other income increased from $1,826,000 to $5,377,000 as a result of increases in net gain on sale of assets no longer of use to the Company, interest income, area license royalties, and miscellaneous income.

Gross margin for the year was 25.21%, compared with 25.57% for 1975. The decline was the result of more aggressive pricing of selected items in convenience stores, higher farm milk costs without corresponding market price increases, and a changing product mix, including a substantial increase in sales of self-serve gasoline, a high-volume low-gross profit product available at year-end at 1,235 7-Eleven stores.

The ratio of expenses to revenues declined from 21.76% in 1975 to 21.41% in 1976 reflecting continuing programs implemented by management to control operating expenses. During 1976, revenues increased 18.5%, cost of goods sold including buying and occupancy expenses 19.1%, and expenses (selling, general and administrative expenses, interest expense, and contributions to Employees' Savings and Profit Sharing Plan) 16.6% compared with 1975. Interest expense increased 25.1% in 1976, due to an increase in mortgage debt incurred to finance new 7-Eleven stores.

The Dairies Group represented 8% of the Company's operating profit in 1976, compared with 11% in 1975. The decline principally was due to a reduction in gross margin caused by higher farm milk costs without corresponding market price increases.

Contributions to the Employees' Savings and Profit Sharing Plan increased 19.3% in 1976, to $8.3 million, compared with $7.0 million in 1975, as the result of increased earnings before income taxes.

A lower gross margin, offset in part by a reduction in the ratio of expenses to revenues, resulted in net return on revenues of 1.90% compared with 1.92% for 1975. Net earnings were $40.3 million, up 17.4% from 1975 earnings of $34.3 million.

FISCAL YEAR 1975 COMPARED WITH FISCAL YEAR 1974

In 1975, revenues increased $176.6 million to $1.790 billion, compared with $1.613 billion for 1974, up 10.9%. Continued consumer demand for convenient shopping, gains in average sales volume per store, increases in selling prices to offset higher merchandise costs, the opening of new 7-Eleven stores, and the addition of substantial dairy business contributed to the growth of revenues. The Company opened a net of 408 convenience stores in 1975, up from 370 the previous year.

Other income, including interest income, was $1.8 million for the year, compared with $3.9 million in 1974, as the Company chose to use its cash reserves to finance a major portion of its 1975 capital expenditure program.

Gross margin for the year declined to 25.57%, compared with 26.12% for 1974. The decline was the result of erratic swings in product costs, adjustment of the pricing of selected items in convenience stores, an increase in sales of self-serve gasoline, a low-gross profit product, and the impact of inflation and recession.

The ratio of expenses to revenues declined from 22.53% in 1974 to 21.76% in 1975, reflecting programs implemented by management to control operating expenses. During 1975, revenues increased 10.9%, cost of goods sold including buying and occupancy expenses 11.8%, and expenses 7.1%, compared with 1974. Interest expense decreased to $7.1 million, from $7.8 million in 1974, reflecting the conversion late that year of subordinated debt.

Special Operations represented 1% of the Company's operating profits in 1975, compared with 5% in 1974. This decline was due solely to a loss in the Barricini plant, which resulted from the revaluation of inventories to reflect declining commodity costs, continuing fixed expenses and a reduction in volume associated with the program initiated in 1972 for the closing of the retail candy shops. The Barricini plant and remaining retail units were sold during the third quarter of 1976.

Contributions to the Employees' Savings and Profit Sharing Plan increased 18.6% in 1975, to $7.0 million, compared to $5.9 million in 1974, as a result of increased earnings before income taxes.

A lower gross margin, offset by a reduction in the ratio of expenses to revenues, resulted in net return on revenues increasing to 1.92% from 1.84% in 1974. Net earnings were $34.3 million, up 15.4% from 1974 earnings of $29.7 million.

SUMMARY OF EARNINGS AND EXPENSES AS A PERCENT OF TOTAL REVENUES

	1976	1975	1974	1973	1972
Revenues	**100.00%**	100.00%	100.00%	100.00%	100.00%
Cost of Sales	**74.79**	74.43	73.88	74.07	74.77
Gross Margin	**25.21**	25.57	26.12	25.93	25.23
Expenses	**21.41**	21.76	22.53	22.77	22.03
Earnings Before Income Taxes	**3.80**	3.81	3.59	3.16	3.20
Net Earnings	**1.90%**	1.92%	1.84%	1.67%	1.66%

LINES OF BUSINESS (Years Ended December 31)

	REVENUES					OPERATING PROFITS				
	1976	1975	1974	1973	1972	**1976**	1975	1974	1973	1972
Stores Group	**87%**	87%	87%	87%	86%	**86%**	88%	85%	86%	87%
Dairies Group	**11**	12	11	11	12	**8**	11	10	10	9
Special Operations	**2**	1	2	2	2	**6**	1	5	4	4
Total	**100%**	100%	100%	100%	100%	**100%**	100%	100%	100%	100%

STATEMENT OF CONSOLIDATED EARNINGS
THE SOUTHLAND CORPORATION AND SUBSIDIARIES
Years ended December 31 (Dollars in thousands except per share data)

	1976	1975	1974	1973	1972
Revenues:					
Net sales (Note 1)	**$2,115,768**	$1,787,928	$1,609,257	$1,393,622	$1,226,189
Other income	**5,377**	1,826	3,868	2,869	2,161
	2,121,145	1,789,754	1,613,125	1,396,491	1,228,350
Cost of Sales and Expenses:					
Cost of goods sold, including buying and occupancy expenses	**1,586,371**	1,332,132	1,191,819	1,034,391	918,419
Selling, general and administrative expenses	**437,005**	375,382	349,759	308,163	262,348
Interest expense	**8,837**	7,066	7,805	5,233	4,079
Contributions to Employees' Savings and Profit Sharing Plan	**8,346**	6,995	5,899	4,558	4,161
	2,040,559	1,721,575	1,555,282	1,352,345	1,189,007
Earnings Before Income Taxes and Equity in Earnings of Affiliates	**80,586**	68,179	57,843	44,146	39,343
Income Taxes (Note 9)	**40,735**	34,459	28,718	21,746	19,396
Earnings Before Equity in Earnings of Affiliates	**39,851**	33,720	29,125	22,400	19,947
Equity in Earnings of Affiliates (Note 2)	**426**	599	611	928	419
Net Earnings	**$ 40,277**	$ 34,319	$ 29,736	$ 23,328	$ 20,366
Per Share (Note 10):					
Primary earnings	**$2.16**	$1.85	$1.65	$1.30	$1.17
Earnings assuming full dilution	**$2.09**	$1.79	$1.57	$1.24	$1.11

See notes to financial statements.

CONSOLIDATED BALANCE SHEET
THE SOUTHLAND CORPORATION AND SUBSIDIARIES

ASSETS

	December 31 1976	December 31 1975
Current Assets:		
Cash	**$ 5,497,245**	$ 6,528,267
Cash investments	**20,902,012**	—
Accounts and notes receivable (Note 3)	**67,382,760**	59,770,569
Inventories (Note 1)	**105,028,941**	92,384,274
Deposits and prepaid expense	**13,895,643**	10,681,036
Investment in property (Note 1)	**43,977,063**	47,284,415
Total Current Assets	**256,683,664**	216,648,561
Investments in Affiliates (Notes 1 and 2)	**25,655,777**	25,623,353
Other Assets	**4,673,150**	4,122,681
Property, Plant and Equipment (Notes 1 and 4)	**339,447,097**	290,583,343
	$626,459,688	$536,977,938

See notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1976	December 31 1975
Current Liabilities:		
Long-term debt due within one year	**$ 4,753,669**	$ 4,627,439
Accounts payable and accrued expense	**126,026,226**	108,274,288
Income taxes	**11,039,000**	9,012,112
Total Current Liabilities	**141,818,895**	121,913,839
Deferred Credits (Note 6)	**27,096,781**	23,332,056
Long-Term Debt, due after one year (Note 5)	**153,092,602**	119,910,933
Contingencies and Commitments (Note 8)		
Shareholders' Equity (Notes 5 and 7):		
Common stock, $.01 par value, authorized 40,000,000 shares, issued and outstanding 18,650,776 and 18,036,037 shares	**186,508**	180,360
Additional paid-in capital	**204,095,650**	189,165,594
Earnings retained in the business	**100,169,252**	82,475,156
	304,451,410	271,821,110
	$626,459,688	$536,977,938

See notes to financial statements.

32200828 26515683

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY
THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31 1976	1975
Common Stock:		
Balance January 1	$ **180,360**	$ 174,283
Exercise of stock options	**—**	321
3% Stock dividend	**5,391**	5,199
Conversion of notes	**628**	557
Stock issued for key employees incentive plan	**129**	—
Balance December 31	**186,508**	180,360
Additional Paid-in Capital:		
Balance January 1	**189,165,594**	175,472,195
Exercise of stock options	**—**	614,245
3% Stock dividend	**13,807,330**	12,342,711
Conversion of notes	**822,372**	736,443
Stock issued for key employees incentive plan	**300,354**	—
Balance December 31	**204,095,650**	189,165,594
Earnings Retained in the Business:		
Balance January 1	**82,475,156**	67,642,970
Net earnings for the year	**40,277,262**	34,318,668
	122,752,418	101,961,638
Less:		
Cash dividends	**8,659,763**	7,033,407
Cash paid in lieu of fractional shares	**110,682**	105,165
3% Stock dividend	**13,812,721**	12,347,910
	22,583,166	19,486,482
Balance December 31	**100,169,252**	82,475,156
Total Shareholders' Equity (Notes 5 and 7)	**$304,451,410**	$271,821,110

See notes to financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION
THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31 1976	1975
Source of Funds:		
From operations:		
Net earnings	**$ 40,277,262**	$ 34,318,668
Depreciation	**36,044,465**	30,214,211
Deferred income taxes and other credits	**5,389,896**	4,649,451
Funds provided by operations	**81,711,623**	69,182,330
Long-term debt	**40,355,855**	20,174,373
Increase in accounts payable, accruals and income taxes	**19,778,826**	7,752,447
Property retirements and sales	**12,097,421**	3,558,055
Decrease in investment in property	**3,307,352**	—
Conversion of notes	**823,000**	737,000
Stock issued for key employees incentive plan	**300,483**	—
Decrease in cash and cash investments	**—**	11,206,657
Exercise of stock options	**—**	614,566
	$158,374,560	$113,225,428
Application of Funds:		
Property, plant and equipment	**$ 98,630,811**	$ 71,784,733
Increase in cash and cash investments	**19,870,990**	—
Increase in inventories	**12,644,667**	7,272,412
Cash dividends	**8,659,763**	7,033,407
Increase in accounts and notes receivable	**7,612,191**	6,025,602
Payment of long-term debt	**6,224,956**	8,085,308
Increase in deposits and prepaid expense	**3,214,607**	497,218
Conversion of notes	**823,000**	737,000
Cash paid in lieu of fractional shares	**110,682**	105,165
Investments in affiliates	**32,424**	1,036,213
Increase in investment in property	**—**	9,797,852
Other	**550,469**	850,518
	$158,374,560	$113,225,428

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
THE SOUTHLAND CORPORATION AND SUBSIDIARIES
Years ended December 31, 1976 and 1975

1. ACCOUNTING POLICIES:
Principles of Consolidation

The financial statements include the assets, liabilities, sales, costs and expenses of all wholly-owned subsidiaries. Intracompany transactions have been eliminated.

Investments in United Kingdom and Mexico affiliates are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition.

Foreign Operations

Operations and earnings of foreign subsidiaries and affiliates are translated to U.S. dollars in accordance with the provisions of Financial Accounting Standards Board Statement No. 8. Exchange rate adjustments are charged or credited to income. Such adjustments have not been material.

Revenues

Net sales comprises sales of products and merchandise (including sales of stores operated by franchisees) and other operating revenues which consist principally of truck rentals.

Sales of stores operated under domestic and foreign area license agreements are not included. All fees or royalties arising from such agreements are included in other income. Initial fees are deferred until the services required under the agreements have been performed.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, which, as to merchandise in stores, is determined by the retail inventory method. There is no significant effect arising from inflation, as the holding period for items in inventory is relatively short.

Investment in Property

Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Working capital is used in the construction of new facilities, and the Company expects that cash will be realized for such assets within a 12-month period.

Property, Plant and Equipment

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining terms of the leases or the estimated useful lives of such improvements, whichever is the shorter. Maintenance and repairs are charged to income, whereas renewals and betterments are capitalized.

2. INVESTMENTS IN AFFILIATES:
In January 1976, the Company and Cavenham Limited restructured their joint United Kingdom retail interests. The Company purchased from Cavenham, for approximately $2,900,000, an additional 19% interest in Southland-Cavenham Limited increasing its ownership interest to 69%. The Company also acquired an option (which the Company presently intends to exercise) to purchase, in January 1978, Cavenham's remaining 31% interest for approximately $3,100,000. Also in January 1976, the Company sold its 50% interest in Cavenham-Southland Limited to Cavenham for approximately $6,300,000. Southland-Cavenham Limited (now Southland-McColl (U.K.) Limited), through subsidiaries that are wholly-owned, operates retail stores located in England and Scotland. Cavenham-Southland Limited operated retail grocery stores located in England, Scotland and Wales. If the above transactions had been consummated at the beginning of the year ended December 31, 1975, there would have been no material change in net income from that reported for the year. This restructuring of interests has been accounted for as an exchange of interests in similar productive assets with no resultant gain or loss and the equity method of accounting has been continued.

Equity in earnings of the above affiliates has been included during the respective periods of ownership. The year for determining earnings ends in October. Equity in such earnings is stated net of interest on borrowings used to make the investments, amortization of the excess of the investments over the net assets acquired (straight-line over 40 years), foreign income taxes and a provision for United States federal income taxes.

3. ACCOUNTS AND NOTES RECEIVABLE:

	1976	1975
Trade	**$42,227,121**	$34,584,556
Franchisee	**27,613,543**	26,827,841
	69,840,664	61,412,397
Less allowance for doubtful accounts	**2,457,904**	1,641,828
	$67,382,760	$59,770,569

4. PROPERTY, PLANT AND EQUIPMENT:

	1976	1975
COST:		
Land	**$ 50,169,693**	$ 37,140,032
Buildings and leaseholds	**185,314,201**	156,894,825
Machinery and equipment	**221,647,641**	195,191,213
Vehicles	**35,943,068**	34,628,446
Construction in process	**7,103,661**	3,812,166
	500,178,264	427,666,682
Less accumulated depreciation	**160,731,167**	137,083,339
	$339,447,097	$290,583,343

Approximately 35% of the net book value of property, plant and equipment is mortgaged. Mortgage lenders to certain real estate subsidiaries also hold, by pledge as collateral for such mortgage, the shares of that real estate subsidiary.

5. LONG-TERM DEBT:

At December 31, 1976, long-term debt and amounts due within one year, which are included in current liabilities, were as follows:

	Amount outstanding	**Current portion**	**Balance included in long-term debt**
6¾% Note payable to bank due 1978	$ 12,500,000	$ —	$ 12,500,000
5%—9.86% Real estate and equipment notes (mature 1977 to 2005)	112,356,271	4,753,669	107,602,602
5¾% Convertible subordinated notes due 1987	2,990,000	—	2,990,000
5% Convertible subordinated debentures due 1987	30,000,000	—	30,000,000
	$157,846,271	$4,753,669	$153,092,602

The 5¾% convertible notes and the 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into common stock of the Company. The present conversion ratios are 78.54 and 26.79 shares of stock, respectively, for each $1,000 of principal. As to the 5¾% convertible notes, the ratio decreases to 74.65 shares on December 1, 1977. At December 31, 1976, there were 1,038,534 shares of common stock reserved for the conversion of the notes and debentures. Required principal payments on the 5¾% convertible notes are due annually beginning November 30, 1978, in the amount equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first payment.

Beginning January 1, 1977, the interest rate on the $12,500,000 note payable to bank will be at the bank's prime lending rate.

At December 31, 1976, the aggregate amount of long-term debt maturities is as follows for the years ending December 31: 1977—$4,754,000; 1978—$16,678,000; 1979—$3,970,000; 1980—$3,759,000; 1981—$3,834,000.

6. DEFERRED CREDITS:

For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the terms of the leases or the useful lives of the assets, respectively.

Deferred federal income taxes result primarily from the use of accelerated depreciation methods for tax purposes.

	Investment credits	Deferred federal income taxes	Other	Total
Balance January 1, 1975	$ 6,653,045	$12,095,240	$1,227,267	$19,975,552
Provided for the year	3,411,000	1,729,000	71,291	5,211,291
Taken into income	(1,854,787)	—	—	(1,854,787)
Balance December 31, 1975	8,209,258	13,824,240	1,298,558	23,332,056
Provided for the year	4,316,000	1,606,000	83,170	6,005,170
Taken into income	(2,240,445)	—	—	(2,240,445)
Balance December 31, 1976	$10,284,813	$15,430,240	$1,381,728	$27,096,781

7. COMMON STOCK:

At December 31, 1976, under an employees' stock option plan which terminated during 1974, options for 81,946 shares of the Company's stock at prices ranging from $16.78 to $30.63 were outstanding, of which 72,993 shares were exercisable. During 1976, no shares were issued upon exercise of options and options for 36,868 shares expired or were cancelled. During 1975, 34,067 shares were issued upon exercise of options at prices ranging from $16.75 to $19.24 and options for 19,926 shares expired or were cancelled.

A total of 92,778 shares of the Company's common stock are reserved for issuance pursuant to a key employees incentive plan. In 1977, approximately 17,200 shares will be issued under the plan.

The above information has been adjusted for stock dividends.

8. LEASE COMMITMENTS:

Certain of the property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 15 to 20 years, with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years.

Property and equipment rentals included in the Statement of Consolidated Earnings of $57,734,000 in 1976 and $54,682,000 in 1975 have been reduced by $3,650,000 in 1976 and $3,019,000 in 1975 for all rentals received from subleases. Minimum rentals on noncapitalized financing leases (as defined by the Securities and Exchange Commission) were $43,829,000 in 1976 and $40,168,000 in 1975. Contingent rentals, based on sales volumes, exceeded minimum rentals by $1,533,000 in 1976 and $1,570,000 in 1975. Substantially all contingent rentals in 1976 and 1975 were applicable to the noncapitalized financing leases.

Minimum rental commitments (principally real estate leases), exclusive of taxes and insurance payable by the Company for noncancelable leases in effect at December 31, 1976, are approximately as follows for the periods specified (000's omitted):

	Minimum rental commitments			
Years	Noncapitalized financing leases	Other leases	Minimum rentals from subleases	Net minimum rental commitments
1977	$ 47,189	$ 5,559	$ 2,282	$ 50,466
1978	44,992	4,330	2,057	47,265
1979	42,910	3,248	1,627	44,531
1980	40,648	2,090	1,158	41,580
1981	37,425	1,230	752	37,903
1982-1986	150,634	2,103	1,876	150,861
1987-1991	111,892	271	557	111,606
1992-1996	42,975	94	137	42,932
Thereafter	1,841	9	—	1,850
Total	$520,506	$18,934	$10,446	$528,994

The present value of minimum rental commitments for noncapitalized financing leases was $299,229,000 at December 31, 1976, and $277,365,000 at December 31, 1975, of which $255,755,000 and $233,651,000 were real estate leases and $43,474,000 and $43,714,000 were equipment leases. Interest rates, implicit in the terms of each lease at the time of entering into the leases, were used in computing present value and range from 5% to 9.75%. In 1976 the weighted average of such interest rates was 8.1%. At December 31, 1976, and at December 31, 1975, the then present value of rentals to be received from noncancelable subleases included above was $1,364,000 and $1,310,000, respectively.

If all noncapitalized financing leases were capitalized, net income would have been reduced by $2,748,000 (15¢ per share) in 1976 and by $2,560,000 (14¢ per share) in 1975. In making this computation, amortization of the present value, at the beginning of their respective terms, of noncapitalized financing leases ($25,467,000 in 1976 and $23,764,000 in 1975) and implicit interest ($23,647,000 in 1976 and $21,326,000 in 1975) were included.

9. INCOME TAXES:

Income taxes provided for are summarized below:

	1976	1975
Federal:		
Current	**$29,345,000**	$24,919,000
Deferred	**5,922,000**	5,140,000
State	**5,468,000**	4,400,000
	$40,735,000	$34,459,000

10. EARNINGS PER SHARE:

Primary earnings per share are based upon the average number of shares outstanding during each year after giving effect to subsequent stock dividends.

Earnings per share, assuming full dilution, are based upon (a) the number of shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible notes and debentures at the stated conversion rates at the earliest possible dates (related interest requirements eliminated), (c) the number of shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with proceeds and (d) average shares issuable under the key employees incentive plan.

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1976 is as follows (000's omitted):

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
Net sales	$465,314	$537,820	$568,158	$544,476
Gross profit	111,845	138,177	144,442	134,933
Net earnings	5,456	12,277	13,197	9,347
Earnings per share:				
Primary	$.29	$.66	$.71	$.50
Fully diluted	.29	.63	.68	.49

12. REPLACEMENT COST INFORMATION (UNAUDITED):

Replacement cost information (required by Rule 3-17 of Regulation S-X) appears in the notes to financial statements contained in the Form 10-K filed by the Company with the Securities and Exchange Commission.

The cost of merchandise purchased for sale increased slightly during 1976. However, there was no significant impact on earnings arising from these increases because the average holding period for such merchandise is relatively short and the Company has the ability to quickly react to cost changes and make appropriate adjustments to selling prices.

13. SUBSEQUENT EVENT:

In March 1977, the Company plans to sell $50,000,000 of Sinking Fund Debentures due February 15, 2002. Annual sinking fund payments in the amount of $2,500,000 will be required beginning February 15, 1983, and, at the option of the Company, may be increased to $5,000,000. Net proceeds from the sale of the debentures will be used to retire the note payable to bank due 1978 of $12,500,000 and the balance will be available for working capital.

TOUCHE ROSS & CO.

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

2001 BRYAN TOWER, SUITE 2400
DALLAS, TEXAS 75201

We have examined the consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1976 and 1975, and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated statements present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1976 and 1975, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Dallas, Texas
February 14, 1977

Touche Ross & Co.

Certified Public Accountants

A history commemorating the 50th Anniversary of The Southland Corporation will be published in Spring, 1977, and copies will be sent to all shareholders of record. A copy may be obtained by writing the Financial Relations Department, The Southland Corporation, P.O. Box 719, Dallas, Texas 75221.

SHAREHOLDER INFORMATION

SECURITIES TRADED:
COMMON STOCK
8⅝% SINKING FUND DEBENTURES*
New York Stock Exchange
5% CONVERTIBLE SUBORDINATED DEBENTURES
Luxembourg Stock Exchange

TRANSFER AGENT AND REGISTRAR:
COMMON STOCK
First National Bank in Dallas
8⅝% SINKING FUND DEBENTURES
Mercantile National Bank at Dallas

ANNUAL MEETING:
The Annual Meeting of the Company will be held at 10 a.m. Wednesday, April 27, 1977, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

FORM 10-K:
Shareholders may obtain a copy, exclusive of exhibits, of the Form 10-K Annual Report for the year ended December 31, 1976, as filed with the Securities and Exchange Commission, by writing to the Financial Relations Department at the Company's mailing address.

AUTOMATIC STOCK PURCHASE PLAN:
This plan provides a simple, convenient, and inexpensive way for shareholders to invest cash dividends and voluntary cash deposits in additional Southland shares. For further information, write the Financial Relations Department at the Company's mailing address.

MAILING ADDRESS:
P.O. Box 719, Dallas, Texas 75221

TELEPHONE:
(214) 828-7011

* Application for listing has been made.

BOARD OF DIRECTORS

JOHN P. THOMPSON
Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER
Vice Chairman of the Board

JERE W. THOMPSON
President

WILLIAM W. ATWELL
Independent Contractor

J. Y. BALLARD
Independent Consulting Engineer

WALTON GRAYSON, III
Executive Vice President

MARK L. LEMMON, M.D.
Plastic and Reconstructive Surgeon

CLIFFORD W. WHEELER
Vice President

OFFICERS

JOHN P. THOMPSON
Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER
Vice Chairman of the Board

JERE W. THOMPSON
President

WALTON GRAYSON, III
Executive Vice President, Administration and Services

JOSEPH S. HARDIN
Executive Vice President, Planning and Special Operations

M. T. COCHRAN, JR.
Vice President, Dairies Group

S. R. DOLE
Vice President, Company Franchised Convenience Stores

VAUGHN R. HEADY
Vice President, Company Convenience Stores

FORREST STOUT
Vice President, Southern Stores Region

CLIFFORD W. WHEELER
Vice President, New Areas

CLARK J. MATTHEWS, II
Vice President, General Counsel

W. K. RUPPENKAMP
Vice President, Financial Relations

R G SMITH
Secretary and Treasurer

P. EUGENE PENDER
Controller

THE SOUTHLAND CORPORATION

1976 ANNUAL REPORT

2828 North Haskell — Dallas, Texas 75204